

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 04 TEL AVIV 000450

SIPDIS

E.O. 12958: DECL: 01/30/2016

TAGS: ECON EFIN PGOV IS ECONOMY AND FINANCE ISRAELI SOCIETY

SUBJECT: POVERTY SITUATION IMPROVES AMID HEADLINES TO THE CONTRARY

REF: 05 TEL AVIV 7051

Classified By: Deputy Chief of Mission Gene A. Cretz for reasons 1.4 b and d.

Summary

11. (C) The poverty report released on January 23 by the Israeli National Insurance Institute (INII) indicates a marked slowdown in the rate of increase of poverty in Israel.

At a time when the sharp cut in welfare payments resulting from the enactment of the Netanyahu economic reform program in 2003 is being blamed by politicians and the press for a drastic increase in severe economic distress, the report shows that the situation has begun to improve, albeit slowly.

While the number of children living in poverty has increased, the number of families below the poverty line has stabilized, and the number of elderly living in poverty has decreased slightly. The Arab and Ultra-Orthodox Jewish sectors, however, remain mired at the bottom of the economic ladder. Despite the inflammatory statements of some politicians and commentators who have seized on the report in this election season to attack the government, the combination of cautiously restoring some of the allowances that had been significantly cut and strong economic growth has begun to positively impact many on the lower socio-economic rungs and pull some of them out of poverty.

End Summary.

Moving in the Right Direction

12. (C) The INII poverty report covered the incomes of Israeli individuals and families during the July 2004 to June 2005 period. It was immediately seized on by politicians and commentators as evidence that the poverty situation in Israel has reached crisis proportions. In reality, these poverty statistics overall seem to indicate that things are moving in the right direction, albeit slowly.

-- Firstly, the government's economic reform plan begun in 2003 has pulled the country out of a deep recession and moved it onto a path of solid growth - 5.2 percent in 2005.

-- Secondly, the government has been fine-tuning its allowance policies, restoring some of the aid that was cut to those who were unable to join the labor force or otherwise make up what they lost in reduced welfare payments. Overall, Israel has significantly reduced its transfer payment to GDP ratio in recent years, moving from 8.6 percent of GDP in 2001 to 8.5 percent in 2002 to 8 percent in 2003, 7.3 percent in 2004, and an estimated 7 percent in 2005.

-- Thirdly, some families which formerly had no breadwinner saw one or more of their members join the workforce, as indicated by the decrease in the number of families with no breadwinner. The substantial decline in the unemployment rate from 10.4 percent in 2004 to about 9 percent in 2005 played a major role in this. The enactment of the Wisconsin employment plan in August 2005 should contribute to an acceleration in this trend, as it helps thousands more unemployed individuals find suitable employment. The plan aims to place 14,000 people initially, with more to follow if it is deemed successful.

-- Finally, the decline in the number of two or more worker families living below the poverty line indicates that the recent strong economic growth has begun to reach the lowest socio-economic sector and to pull some people out of poverty.

Statistics May Lie

13. (U) According to Avraham Tal in the January 26 Ha'aretz, a major factor which must be taken into account when assessing the economic situation of various groups is the importance of the informal economy. The statistics cited by the INII are based on numbers supplied by the GOI's Central Bureau of Statistics (CBS), which do not take this factor into account. According to Tal and others' estimations, the "black economy" comprises between twenty and forty percent of

the overall economy. He wrote that the CBS numbers also do not take into account any income that individuals may have other than wages, profits, or allowances, such as goods and services they may receive at low or no cost. Therefore, he says that the statistics the poverty discussion is based on present a distorted and unwarranted negative picture. He concludes by asking "... how reliable is the income data on which the INII calculations are based? Is it true that almost every fourth person in Israel deserves to be defined as 'poor?' Wouldn't a country with a quarter of its population considered poor look entirely different from Israel 2006?"

Number of Impoverished Families Stabilized

14. (U) The INII - an agency of the Israeli government responsible for distributing welfare payments - released a report on January 23 covering the incomes of Israeli individuals and families during the July 2004 to June 2005 period. The INII figures indicate a marked slowdown in the increase in the number of families living in poverty, totaling 20.5 percent in the 2004/2005 period versus 20.3 percent for all of 2004, 19.3 percent for 2003, and 18.1 percent for 2002. The large increases of past years reflected the effects of the recession brought on by the Intifada, which were likely aggravated by the cuts in allowances enacted as part of the Netanyahu economic reform program begun in 2003. The percentage of one-wage-earner families living beneath the poverty line went up from 35.4 percent in 2004 to 36.9 percent in 2004/2005, but the percentage of those with no breadwinner and living completely on allowances went down from 35.5 percent to 34.6 percent during the same period. The figure for families with two or more people working but still earning less than the government-defined poverty line went down from five percent to 4.5 percent.

Children Still Worse Off

15. (U) The number of children living in poverty has continued to rise, drawing particular attention from many politicians interested in hyping the poverty situation in the country. However, as with other poverty measures, the steep annual growth in the rate of increase has tapered off recently. According to the INII, from 1998 through 2005, there has been a fifty percent increase in the number of children living in poor families, from 22.8 percent in 1998, to 29.6 percent in 2002, 33.2 percent in 2004, and 34.1 percent in the 2004 - 2005 period. The number of children now living in poverty is 738,100. INII attributes the increase in poverty among children to the approximately 45 percent reduction in child allowances paid out by the government in accordance with the number of children per family in the recent period - which resulted in a reduced government expenditure during the period of approximately NIS 3.6 billion (about USD 783 million). On January 17, INII announced that the child allowance, reduced to NIS 120 (about USD 26) per month per child as part of the economic recovery plan, would shortly be raised to NIS 148 per month (about USD 32).

Elderly Doing Slightly Better

16. (U) The number of elderly living in poverty seems to have also reached a turning point, with the 24.1 percent figure for 2004/2005 now slightly below the 24.2 percent figure for all of 2004. Part of the reason for the slight decline in poverty among the elderly is that, recognizing that most elderly do not have the option of joining the labor force to supplement their incomes, the government restored some of the allowances that had been cut earlier - 2.5 percentage points of the four percent reduction. The 2.5 percent was restored in two tranches during 2005, and the impact of this move, together with the general growth in the economy, is now becoming evident in the declining poverty figure among the elderly.

The Arab Sector is Seriously Impoverished

17. (C) The INII report suggested several ways to continue to fight poverty. To enable more people to join the labor market, it suggests enforcing the minimum wage, reducing the number of foreign workers, and implementing an Earned Income Tax Credit (EITC). It also suggested a study of the results of the Wisconsin plan for possible future expansion, and increased investment in vocational training. Several of its recommendations focused specifically on the Arab sector and suggested:

-- encouraging the establishment of small businesses,

-- providing incentives to establish industrial zones to serve Arab towns and villages,

-- encouraging the hiring of Arabs in Jewish-owned businesses,

-- hiring more Arabs in the public sector,

-- and encouraging Arab women to work and to open kindergarten and day-care centers.

According to Ministry of Finance numbers, approximately 35 percent of poor Israeli households are Arab, and the Bank of Israel (BOI) statistics for 2003 indicate that 46.2 percent of the Arab citizens of Israel live in poverty. Whether these numbers are accurate or not, the problem of poverty in the Arab sector is acute, and if implemented, measures such as these could have a large positive impact.

Ultra-Orthodox Jews also Live in a Cycle of Poverty

18. (C) Though not specifically addressed in the INII report or in BOI statistics, the problem of poverty is also very serious among ultra-Orthodox Jews, known as the "Haredim." In this community, the men traditionally study and their wives often work to supplement the welfare payments their families receive. As in the Arab sector, the men usually do not serve in the Israeli army and are therefore deprived of the entree into many job opportunities that helps many other young men and women enter the workforce. Also in common with the Arab community, the Haredim often have very large families, and are dependent on child allowances and other welfare payments. As things stand now, these families are doomed to a cycle of poverty and the large number of such families in the Arab and Haredi sectors explains the large number of children living in poverty. Press reports indicate efforts are being made to move more Haredi men away from study and towards work, but, as with any fundamental cultural change, this process is very slow, and its impact will not be felt for a long time.

Other Socio-Economic Divides in Israel

19. (C) Other socio-economic divides exist in Israel as well, but few statistics are easily available from official sources to document them. Residents in development towns on the periphery, which were largely populated by new immigrants from the Middle East and North Africa in the years just after the establishment of the state in 1948, are more likely to be found on the lower end of the socio-economic scale than those living in the major cities and towns in the center of the country. Of the big cities, Jerusalem is the least prosperous, with Haredim and Arabs comprising a large percentage of its population. While the more than one million immigrants from the former Soviet Union who came to the country since 1990 have done surprisingly well, some of them have not yet "made it" into the middle class. In contrast, the Ethiopian immigrants have not fared well and many of them live beneath the poverty line and face many socio-economic problems. While the old Ashkenazi (European) - Sephardi (Middle East and North African) divide in Israeli society is becoming less relevant with every year that passes as the Israeli melting pot continues to progress towards becoming one coherent community, the general sense in the country is that the Ashkenazi sector is still better off, and that the poorer towns and cities are still largely populated by Sephardim. Ironically, the Russian immigration is one major factor that has brought greater prosperity to some peripheral areas in recent years as these (generally speaking) highly-educated new immigrants brought their entrepreneurial skills and strong desire to succeed to areas where housing is much cheaper than in the center of the country.

GOI Definition of Poverty

10. (U) Note: The GOI defines those living beneath the poverty line as those whose income falls below fifty percent of median income.

-- For a single person, the poverty line is NIS 1,804 per month (about USD 392).

-- For a family of four, it is NIS 4,618 (about USD 1000).

-- For a family of seven, it is NIS 6,854 (about USD 1490),

-- and for a family of nine, it is NIS 8,081 (about USD 1757).

-- The minimum wage is now NIS 3,335 (about USD 725), and is scheduled to rise to NIS 3,456 (about USD 751) in April.

Therefore, even if there were strict enforcement of the minimum wage law - which, according to all media reports that touch on the issue - does not seem to be the case at present, there are many people working at full-time minimum wage jobs who are not earning nearly enough to pull their families out of poverty. A family of four would need two full-time workers at minimum wage jobs to bring it out of poverty. End Note.

Comment - Hype Cannot Conceal Progress

11. (C) In this election season in Israel, the INII Poverty Report has provided fodder for politicians and commentators to hype the problem of poverty. Politicians have been making hyperbolic statements since the issuance of the INII report. Tal quotes the following in his Ha'aretz article:

-- "The government has turned poverty into a lethal rapacious microbe that paralyzes the immune system." - Shas Chairman Eli Yishai.

-- "The State of Israel has won the Poor Children's Olympics." - Yuli Tamir, Labor.

-- "The empty bellies of Israel's children are full of a grudge that is liable to explode in our faces." - Michael Melchior, Labor-Meimad.

Tal concludes by saying that ". . . statistics about grinding poverty and a report full of poor people are like a gold mine for the rampant demagoguery, in ordinary times, and much more so at election time." As discussed in reftel, and as noted by Professor Ezra Sadan, former Director General of the Ministries of Finance and Agriculture, at the Herzliya Conference on January 24, the issue in Israel is not so much one of poverty as of inequality - which is very disturbing to many in a country founded on the basis of the socialist ethos. The bottom line is that the statistics - faulty as they might be - indicate that the situation is improving, and that the recent economic growth which has sent those at the top galloping ahead is also beginning to have a positive impact on those on the bottom rungs of the socio-economic ladder. End Comment.

Visit Embassy Tel Aviv's Classified Website:
<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's Classified SIPRNET website.

JONES